

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

EVOLUTIONARY NETWORK DEVELOPMENT)
SERVICE CHANGES)

Docket No. N2006-1

VALPAK DIRECT MARKETING SYSTEMS, INC. AND
VALPAK DEALERS' ASSOCIATION, INC.
FOURTH INTERROGATORIES AND REQUESTS FOR
PRODUCTION OF DOCUMENTS TO UNITED STATES POSTAL SERVICE
WITNESS PRANAB M. SHAH (VP/USPS-T1-20-22)
(June 16, 2006)

Pursuant to sections 25 and 26 of the Postal Rate Commission rules of practice, Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association, Inc. hereby submit interrogatories and document production requests. If necessary, please redirect any interrogatory and/or request to a more appropriate Postal Service witness.

Respectfully submitted,

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VP/USPS-T1-20.

Please refer to your response to VP/USPS-T1-1(b), where you state that “service standards are used as constraints within the model.”

- a. Could service standards, or service performance, be used as an objective function in any of your optimization models? If not, please explain why not.
- b. Could either the optimization model or the simulation model be used to investigate alternate (*i.e.*, WHAT-IF) ways to improve service, or service quality? If not, please explain why not. If so, please indicate whether it has been considered, and in general terms how it might be done.
- c. Please explain whether improvement to service performance is (i) an objective or goal of the Evolutionary Network Development (“END”) program, (ii) a result that reasonably can be expected from the END program, or (iii) a result that, should it occur, is entirely incidental to the END program.

VP/USPS-T1-21.

Please refer to your response to VP/USPS-T1-5(a).

- a. Do the structural equations take account of plant-specific labor productivity or unit costs? If not, please explain what plant-specific effects are taken into account.
- b. For small, medium and large plants, is the marginal cost solution that is input into the optimization model an average marginal cost for all plants within each size category, or is a marginal cost solution developed for each specific plant

based on data from that plant? Please describe in more detail both the basis and the applicability of the marginal cost solution mentioned in your response to VP/USPS-T1-5(a).

VP/USPS-T1-22.

Please refer to USPS Library Reference N2006-1/7, the “Highlights” page (unnumbered) of the GAO Report in USPS-LR-N2006-1/7, which indicates that within each plant size category the productivity varied widely, and ranged from: (i) 1,013 to 2,854 pieces per hour in small plants; (ii) 519 to 2,544 pieces per hour in medium plants; and (iii) 727 to 2,572 pieces per hour in large plants. Within each size category, the ratio of highest to lowest productivity was 2.8 for small plants, 4.9 for medium plants, and 3.5 for large plants. In your response to VP/USPS-T1-5(b), you state that “[t]he cost functions [in the END model] are designed to represent the fixed and variable cost of specific mail processing operations in three size categories of small, medium and large.”

- a. In your model, are the cost functions for each specific mail processing operation based only on some kind of systemwide average cost for small, medium and large? If systemwide averages are not used, please explain in more detail the type of cost data that are used in the model for mail processing operations in each size category.
- b. Is the model capable of somehow reflecting or dealing with the wide disparity of costs found by GAO? If so, please explain how this is done.

- c. Using the extreme productivity figures from the GAO Report, would you agree that it might be possible to consolidate mail from the small facility that handled, say, 2,500 pieces per hour into a medium facility that handled only, say, 800 pieces per hour? If you do not consider this even a remote possibility, please explain why, and how either the optimizing model or the simulation model helps to preclude such an outcome.
- d. Would you agree that it might be possible to consolidate mail from a small facility that handled between 2,000 and 2,100 pieces per hour into a medium or large facility that handled only 1,400 to 1,600 pieces per hour? If you do not consider this a possibility, please explain why.
- e. When the optimizing model is used to evaluate a proposed consolidation of mail processing operations from one facility into a larger facility, please explain what effort is made, if any, to base the evaluation on actual productivity and cost data from each of the two facilities being studied.
- f. If your optimization models do not incorporate actual costs and productivities for individual facilities being considered for consolidation, please explain:
 - (i) How you can be confident that the result will be to consolidate mail in the more efficient facilities, and away from the less efficient facilities; and
 - (ii) What is being optimized under circumstances where you use “averages” that may be totally inapplicable to either or both of the two facilities in question.